

Overseas Exchange Transactions (OET)

April 2021

Release Date: 21 July 2021

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Apr-21	Mar-21	Feb-21	Jan-21	Apr-21	Apr-20
Overall Balance	-6.0	-6.7	-12.9	29.7	204.6	10.9
Net Current Account	7.1	-7.2	-14.9	18.2	152.3	23.9
Net Capital Account	0.5	0.9	4.7	3.5	42.5	29.8
Net Financial Account	-13.6	-0.4	-2.8	8.0	9.7	-42.8
Foreign Reserve Levels	679.7	685.7	692.4	705.3	679.7	475.1

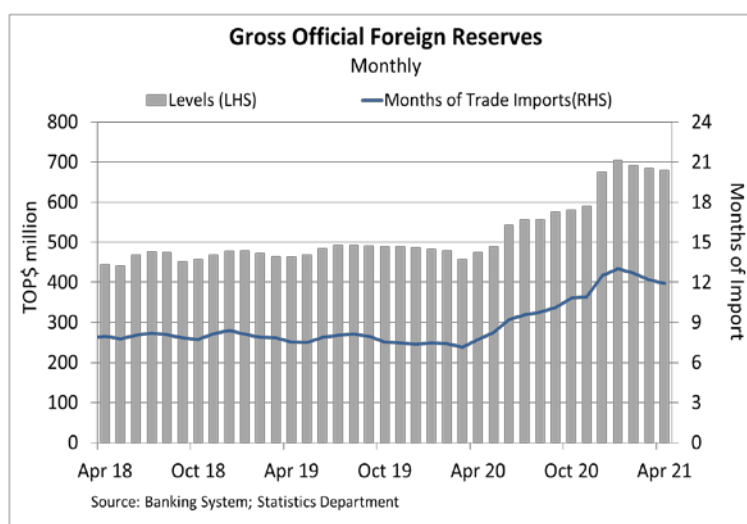
Sources: Banking System; NRBT

Foreign reserves declined due to higher outward payments

Overall Balance & Foreign Reserves

Official foreign reserves declined over the month of April 2021 by \$6.0 million to \$679.7 million, equivalent to 11.9 months of imports. This was mainly attributed to large payments for offshore investments during the month. Nevertheless, foreign reserves increased significantly over the year by \$193.7 million to \$204.6 million, underpinned by receipts of budget support, official grants, external debt and remittances.

The Overseas Exchange Transactions (OET) overall balance continued to record a deficit of \$6.0 million in April 2021, lower than the \$6.7 million deficit in March 2021. This was largely attributed to outflows in the financial accounts and capital accounts, specifically for portfolio investments.



Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Apr-21	Mar-21	Feb-21	Jan-21	Apr-21	Apr-20
Net Current Account	7.1	-7.2	-14.9	18.2	152.3	23.9
Merchandise Trade	-35.6	-45.9	-39.0	-36.7	-440.6	-402.7
Services	-1.3	-2.7	-7.3	-2.1	-14.5	18.1
Income	4.4	2.6	3.0	3.4	33.4	-1.6
Transfers	39.6	38.8	28.5	53.7	573.9	410.2

Sources: Banking System;NRBT

The current account balance improved to a surplus in April 2021 due to the lower deficit in the merchandise trade and services account and the higher net receipts in the income and transfers account. Similarly, the current account surplus increased significantly by \$128.4 million in year-ended terms, driven mostly by higher net receipts in the transfers and income accounts.

Import payments decreased over the month by \$10.8 million (22.9%), underpinned by lower payments for wholesale & retail goods, oil, motor vehicles, and construction imports. However, payments for other imports (mostly business office supplies and government imports) increased over the month. Total export proceeds also fell over the month by \$0.5 million (42.2%) from lower agricultural, marines, and other export receipts. In the year to April 2021, the merchandise trade deficit widened by \$37.8 million (9.4%) as import payments rose by \$31.6 million (7.5%) due to increases in payments for wholesale & retail goods, construction materials, motor vehicles, and other imports. This offsets the lower payments for oil imports during the year. However, proceeds from all export categories declined except the proceeds from other exports (mostly recycled metals), which rose marginally over the year. The impact of COVID-19 on the fisheries sector continues as closed borders affect the frequency and volume of export via air-freight.

The income account surplus increased by \$1.8 million (68.5%) in April 2021 as income payments fell by \$2.0 million (84.5%). Annually, the income account surplus increased by \$35.0 million, underpinned by a decline in payments of \$17.9 million (66.4%) in addition to higher income receipts mainly from wages of seasonal workers abroad. This also supported the rise in remittances over the year despite the negative impacts of COVID-19.

Total transfer receipts rose slightly over the month by \$0.1 million to a total of \$45.9 million, due solely to a \$2.1 million increase in non-profit transfers, mainly church donations and receipts of contributions to domestic fundraising activities. This was partly offset by the decline in both official and private transfers receipts by \$1.5 million and \$0.5 million, respectively. Over the year to April 2021, transfer receipts rose significantly by \$166.7 million (34.6%), underpinned by significant increases in the official transfer receipts by the government for budget support, external debt and relief funds for COVID-19 and TC Harold.

The deficit in the services account improved by \$1.4 million over the month, driven by a \$1.4 million (20.8%) increase in service receipts whilst service payments rose slightly. The higher service receipts were mainly for telecommunication, government services, and professional & management services. Annually, the services account recorded a \$14.5 million deficit compared to the \$18.1 million surplus in April 2020.

This reflects the impact of the border lockdown on tourism activities over the past year. Both travel receipts and payments fell over the year by \$104.8 million (82.5%) and \$30 million (60.3%), respectively.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Apr-21	Mar-21	Feb-21	Jan-21	Apr-21	Apr-20
Net Capital Account	0.5	0.9	4.7	3.5	42.5	29.8
Official	0.0	0.2	2.9	1.7	28.3	16.3
Private	0.4	0.7	1.9	1.7	14.2	13.5

Sources: Banking System;NRBT

The capital account for April 2021 recorded a lower surplus of \$0.5 million (42.8%). This resulted from declines in both official and private capital receipts by \$0.2 million each. There were no capital payments during the month.

In year-end terms, the capital account recorded a higher surplus of \$42.5 million, supported by higher official receipts mainly for the reconstruction projects for houses destroyed by tropical cyclones Gita and Harold. This is also a slight decline in capital account payments, specifically private payments for investment projects abroad.

Financial Account

Table 4 Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Apr-21	Mar-21	Feb-21	Jan-21	Apr-21	Apr-20
Net Financial Account	-13.6	-0.4	-2.8	8.0	9.7	-42.8
Direct Investment	0.0	0.0	0.0	-0.1	0.7	-3.5
Portfolio Investment	-9.0	0.0	0.0	0.0	-9.0	-22.4
Other Investment	-4.5	-0.4	-2.7	8.2	18.1	-16.8

Note: The Net Financial Account figures incorporate also the net reconciliation items which is not reflected in the table below

Sources: Banking System;NRBT

The financial account recorded a higher deficit of \$13.6 million in April 2021, driven mostly by large payments for offshore investments.

Over the year to April 2021, the financial account improved to a surplus of \$9.7 million compared to the \$42.8 million deficit in April 2020. This was mainly attributed to the lower outflow of portfolio investments compared to the previous year.

Outlook

The NRBT anticipates economic growth to contract in the medium term, given the ongoing COVID-19 pandemic and associated uncertainties. At the same time, global oil and commodity prices have rebounded as economies start to recover from the pandemic. This will continue to hinder domestic economic growth and trading behaviour between Tonga and the rest of the world.

However, the level of foreign reserves is expected to increase in the medium term, supported by expected receipts of budget support from donor partners. Import payments and remittance receipts are expected to increase in the upcoming months in line with domestic activities. Additionally, deferrals and suspension of external debt repayments also support the outlook. Remittances are still holding up and are expected to increase in the near term, supported by more seasonal workers departing to Australia and domestic fundraising activities. The prolonged state of emergency and high uncertainty of the pandemic, along with Tonga's vulnerability to natural disasters and external shocks, are downside risks to the outlook.

Overseas Exchange Transactions									
TOP\$ millions									
	Month Ended				Year Ended		Monthly Change	Annual Change	Shares of totals*
	Apr-21	Mar-21	Feb-21	Jan-21	Apr-21	Apr-20			
Total Payments	62.3	67.7	60.7	54.4	683.9	760.4	-7.9%	-10.1%	100.0
Current Account	52.5	66.0	59.9	52.5	650.6	696.7	-20.5%	-6.6%	95.1
Imports	36.4	47.2	40.0	37.8	453.0	421.4	-22.9%	7.5%	66.2
Services	9.6	9.6	12.6	7.6	113.5	176.3	0.2%	-35.6%	16.6
Primary Income	0.4	2.4	0.6	0.4	9.1	27.0	-84.5%	-66.4%	1.3
Transfers	6.2	6.9	6.7	6.7	75.0	72.0	-10.3%	4.1%	11.0
Official	0.0	0.1	0.0	0.0	3.1	4.9	-90.1%	-36.3%	0.5
Private	6.1	6.7	6.1	6.4	71.4	66.9	-9.0%	6.7%	10.4
Non-Profit	0.1	0.1	0.6	0.3	0.5	0.2	-28.3%	96.5%	0.1
Capital Account	0.0	0.0	0.0	0.0	0.8	1.1	0.0%	-27.2%	0.1
Official	0.0	0.0	0.0	0.0	0.1	0.4	0.0%	-76.2%	0.0
Private	0.0	0.0	0.0	0.0	0.7	0.7	0.0%	1.0%	0.1
Financial Account	9.8	1.6	0.7	1.9	32.5	62.6	501.1%	-48.0%	4.8
Direct Investment	0.0	0.1	0.0	0.2	1.0	7.9	-80.1%	-87.3%	0.1
Portfolio Investment	9.0	0.0	0.0	0.0	9.0	22.4	0.0%	-59.6%	1.3
Other Investment	0.8	1.5	0.7	1.7	22.5	32.3	-50.5%	-30.4%	3.3
Total Receipts	66.2	63.5	56.4	80.3	919.7	839.9	4.3%	9.5%	100%
Current Account	59.6	58.8	45.0	70.7	802.9	720.6	1.3%	11.4%	90%
Exports	0.7	1.3	1.0	1.1	12.5	18.7	-42.2%	-33.3%	1%
Agriculture	0.2	0.4	0.5	0.6	6.4	8.1	-60.6%	-20.7%	0%
Marines	0.5	0.6	0.4	0.4	4.7	9.1	-20.6%	-48.3%	1%
Other	0.1	0.2	0.0	0.1	1.2	1.2	-69.6%	0.5%	0%
Services	8.2	6.8	5.3	5.5	99.1	194.4	20.8%	-49.0%	12%
Travel	1.8	1.8	1.5	1.5	22.2	127.0	0.5%	-82.5%	3%
Other	6.4	5.0	3.8	4.0	76.9	67.5	28.2%	13.9%	10%
Primary Income	4.8	5.0	3.6	3.8	42.5	25.4	-4.4%	67.5%	7%
Transfers	45.9	45.7	35.1	60.3	648.9	482.2	0.3%	34.6%	69%
Official	2.1	3.6	1.0	26.9	185.5	113.7	-42.5%	63.2%	3%
Private	37.9	38.3	28.9	28.6	402.9	315.6	-1.2%	27.6%	57%
Non-Profit	5.9	3.8	5.1	4.9	60.5	52.8	55.8%	14.6%	9%
Capital Account	0.5	0.9	4.7	3.5	43.3	30.9	-44.1%	40.3%	1%
Official	0.0	0.2	2.9	1.7	28.4	16.7	-77.0%	70.2%	0%
Private	0.4	0.7	1.9	1.7	14.9	14.2	-34.2%	5.1%	1%
Financial Account	6.1	3.8	6.6	6.1	73.5	88.4	62.2%	-16.8%	9%
Direct Investment	0.0	0.1	0.0	0.1	1.7	4.3	-74.8%	-61.1%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	-100.0%	0%
Other Investment	6.1	3.6	6.6	6.0	71.8	84.0	66.5%	-14.5%	9%

Sources: Banking System; NRBT